

**HERRICK DISTRICT LIBRARY**  
**HOLLAND, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**



**REHMANN ROBSON**

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*Certified Public Accountants*

# Herrick District Library

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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## **INDEPENDENT AUDITORS' REPORT**

December 16, 2008

Members of the District Library Board  
Herrick District Library  
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herrick District Library, as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Herrick District Library. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herrick District Library as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008 on our consideration of Herrick District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Herrick District Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of Herrick District Library's basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Herrick District Library (the "Library"), we offer readers of the Herrick District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **Financial Highlights**

Again this year we did not use all funds that the Board budgeted for library operations for the year. We expended less money than we received this year, we did so within the Board's budget plan and, at year end, spent \$260,000 less than planned. Expenditures were \$260,000 less than planned as a result of:

#### **Payroll Budgets:**

- The Library budgeted for a Part-Time A Librarian (a new position) to begin July 1<sup>st</sup>, but the position was not filled until mid-December, resulting in a saving of \$15,000.
- Full time employees were on short-term disability pay during part of the year.
- Part-Time B (temporary) hours worked were 4,300 less than budget, saving approximately \$47,300. The Library temporarily did not fill two Part-Time B security worker positions, but instead combined a full-time custodial position with a Part-Time B security position into one Part-Time A custodial/security position.
- Budgeted hours for substitute librarians earning \$18.70-\$21.90 per hour were over-estimated.

#### **Other Current Expenditures:**

- The Library did not contract with a Human Resource consultant as planned, resulting in a savings of \$15,000.
- The budget for adult programming was under spent by \$20,645.
- Public utility bills were lower than expected by \$18,598
- The material budget was under spent by \$12,000.

#### **Capital Projects Fund:**

- Projects planned for the Capital Projects Fund were not started during the current fiscal year. These projects were carried forward into the fiscal year 2009 budget and work has started to be done. The budget for fiscal year 2008 was \$71,850 and none of the appropriation was spent during the year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Statements**

The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the government-wide statements.

The Library maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, and permanent fund, each of which are major funds for financial reporting purposes as defined by GASB Statement #34. The capital projects fund is reported in a separate column as a nonmajor fund.

The Library adopts an annual appropriated budget for the General fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

The Library maintains two proprietary funds. Financial statements can be found on pages 19-21 of this report.

The Library also maintains fiduciary funds, which can be found on page 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements can be found on pages 23-33 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

#### Herrick District Library Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets:</b>						
Current and other assets	\$ 6,012,957	\$ 5,776,909	\$ 1,763	\$1,492	\$ 6,014,720	\$ 5,778,401
Capital assets	9,510,100	9,970,863	-	-	9,510,100	9,970,863
Total assets	15,523,057	15,747,772	1,763	1,492	15,524,820	15,749,264
<b>Liabilities:</b>						
Long-term liabilities outstanding	4,625,039	5,404,024	-	-	4,625,039	5,404,024
Other liabilities	174,656	193,981	62	69	174,718	194,050
Total liabilities	4,799,695	5,598,005	62	69	4,799,757	5,598,074
<b>Net assets:</b>						
Invested in capital assets, net of related debt	5,110,100	4,785,863	-	-	5,110,100	4,785,863
Restricted	2,478,549	313,468	-	-	328,813	313,468
Unrestricted	3,134,713	5,050,436	1,701	1,423	5,286,150	5,051,859
Total net assets	\$10,723,362	\$10,149,767	\$ 1,701	\$1,423	\$ 10,725,063	\$ 10,151,190

#### Herrick District Library Change in Net Assets

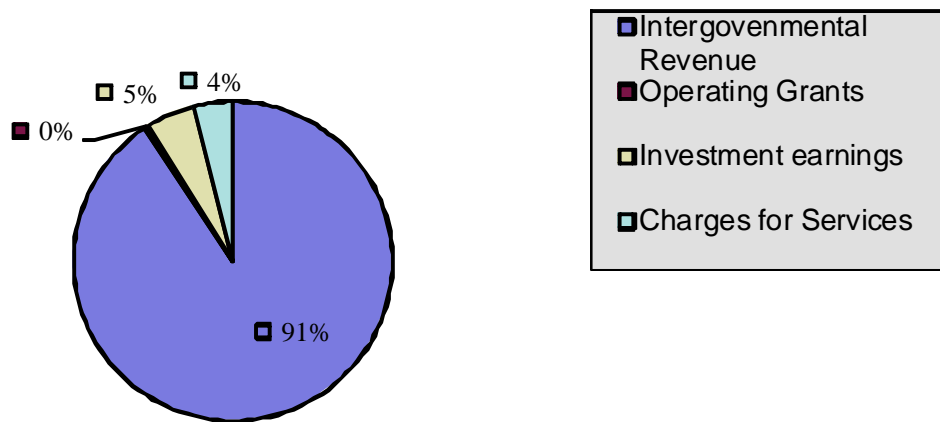
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue:</b>						
Program revenue:						
Charges for services	\$ 230,111	\$ 209,558	\$ 1,402	\$2,185	\$ 231,513	\$ 211,743
Operating grants	22,148	-	-	-	22,148	-
General revenue:						
Intergovernmental revenue	5,193,946	5,083,658	-	-	5,193,946	5,083,658
Investment earnings	285,702	306,588	-	-	285,702	306,588
Total revenue	5,731,907	5,634,813	1,402	2,185	5,733,309	5,636,998

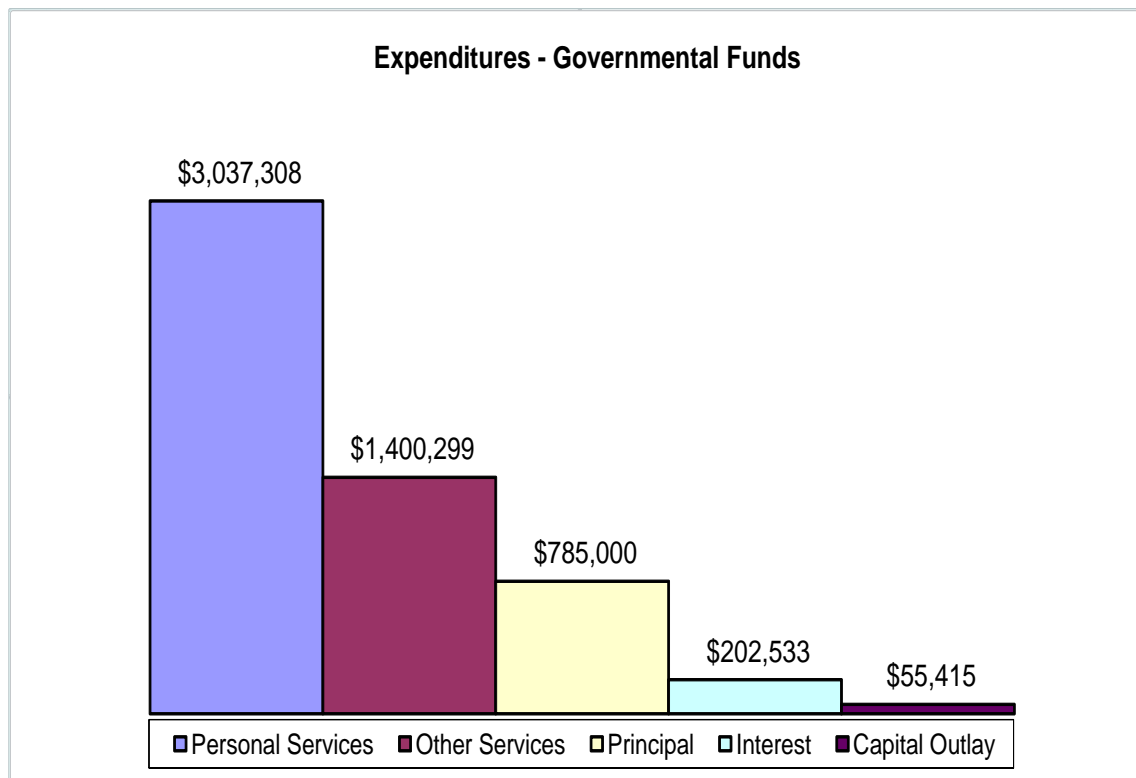


### Herrick District Library Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Expenses:</b>						
Library services	\$ 4,955,379	\$ 4,931,444	\$ -	\$ -	\$ 4,955,379	\$ 4,931,444
Employee vending services	-	-	1,524	2,296	1,524	2,296
Interest on long-term debt	202,533	227,383	-	-	202,533	227,383
Total expenses	5,157,912	5,158,827	1,524	2,296	5,159,436	5,161,123
Increase (decrease) before transfers	573,995	475,986	(122)	(111)	573,873	475,875
Transfers	(400)	(400)	400	400	-	-
Increase (decrease) in net assets	573,595	475,586	278	289	573,873	475,875
Net assets – beginning of year	10,149,767	9,674,181	1,423	1,134	10,151,190	9,675,315
Net assets – end of year	\$10,723,362	\$10,149,767	\$ 1,701	\$1,423	\$ 10,725,063	\$10,151,190

### Revenues by Source - Governmental Funds





### General Fund Budgetary Highlights

There were no significant modifications from the original to the amended budget for the general fund during the current year.

There was no significant variances between the amended budget and final results.

### Capital Assets and Debt Administration

#### Capital Assets

#### Herrick District Library Capital Assets (net of depreciation)

	Governmental Activities	
	2008	2007
Land	\$ 617,975	\$ 617,975
Construction in progress	27,513	27,513
Office equipment and furniture	587,191	638,229
Building and improvements	8,085,008	8,477,251
Equipment and machinery	192,413	209,895
Total	<u>\$ 9,510,100</u>	<u>\$9,970,863</u>

Additional information on the Library's capital assets can be found in Note 3 on page 30 of this report.

## Long-term debt

### Herrick District Library Outstanding Debt

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Capital lease agreements	<u>\$ 4,400,000</u>	<u>\$5,185,000</u>

Additional information on the Library's long-term debt can be found in Note 4 on page 31 of this report.

### Economic Factors and Next Year's Budgets and Rates

The nation's foremost economists are not able to make reliable predictions at the present moment and it is also very difficult for the Library to predict what the next year will be like.

The State of Michigan has a major revenue problem and it could put all of our State Aid in peril. We won't know until near the end of this fiscal year or later.

Property taxes will no doubt be affected by the loss of value in real estate.

One ray of hope for fiscal year 2010 is that part of the Library debt will be retired in fiscal year 2009 and the Library's fiscal year 2010 debt payment will be \$400,000 less than in fiscal year 2009. If needed, the Library should be able to assess the full 1.1 mills for operating.

The Library has been receiving City of Holland tax revenue at exactly the same percentage as at this time in fiscal year 2008. The fiscal year 2009 tax payments from the Township will begin to be distributed at the end of December.

For fiscal year 2009, we know that the distribution of penal fines from Allegan County for the first four months is down 20%, and it appears that by the end of the year it may be lower than that. We have a promise from Ottawa County to give us a report sometime in January about the penal fines for the current year. They have said that their collections are down from last year. We have heard about fewer miles being used for patrolling traffic to save gasoline and no doubt when people do get traffic tickets, many are finding it difficult to pay the fines.

Penal fine income dropped this year by \$45,000 compared to last year. The reduction was anticipated in our budget; however, this revenue simply cannot be predicted in advance. In the past four years it has risen and fallen without any predictability:

## PENAL FINE RECEIPTS

<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/05</u>
\$405,000	\$449,000	\$491,000	\$427,000

Revenue from the District Courts penal fine assessments is four times more important to us than State aid. We are hopeful that the impact of the Legislature's "parallel ordinance" legislation has reached its peak. Again, however, penal fines are as unpredictable as State aid.

As in the past, it is the local millage that really makes the Herrick District Library what it has become. This year our revenue outpaced inflation:

<u>MUNICIPALITY</u>	<u>MILLAGE THIS YEAR</u>	<u>MILLAGE LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Holland City	\$1,571,495	\$1,525,209	3%
Holland Township	1,726,404	1,663,487	4%
Laketown Township	420,265	403,355	4%
Park Township	1,141,815	1,088,814	5%
All Jurisdictions	<u>\$4,859,979</u>	<u>\$4,680,865</u>	<u>4%</u>

It is possible that a day will come when one or more of the participating municipalities will provide less revenue to the Library's budget than it did in the previous year. This could come about because of the varying rates of property development occurring across the district, varying Headlee rollback multipliers, as well as the use of tax increment financing plans to encourage economic development.

### **Financial Analysis of the Government's Funds**

If the Library could not see improvement in its operating revenue coming in 2010, planning for the future would be increasingly difficult. However, when a part of the Library's construction debt is paid off in 2010, the residual capital millage that is subtracted from the total "rolled back" voted 1.5 mils might permit the operational millage to return to the original voted 1.1 mils. Given this opportunity and a healthy fund balance, the Board has approved budgets that exceed the annual revenue from the Library's operating millage. This has permitted the Library to maintain the level of service its customers enjoy as well as introduce several new information products to the community (e.g. downloadable audiobooks and e-books).

Every year the Board will need to assess whether the taxpayers are well served by that action. The use of our collections suggests our taxpayers are enthusiastic about their libraries:

<u>LIBRARY</u>	<u>CIRCULATION THIS YEAR</u>	<u>CIRCULATION LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Herrick	1,019,972	1,027,288	(0.7%)
North Branch	<u>244,217</u>	<u>254,964</u>	<u>(4.2%)</u>
Both libraries	1,264,189	1,282,252	(1.4%)

In fact, at 12 circulations per person, the level of circulation here ranks among the dozen busiest libraries across the State.

### **Requests for information**

This financial report is designed to provide a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director, Herrick District Library, 300 South River Avenue, Holland, Michigan 49423.

## **BASIC FINANCIAL STATEMENTS**

# Herrick District Library

## Statement of Net Assets

June 30, 2008

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 5,570,159	\$ 1,752	\$ 5,571,911
Receivables - net:			
Accounts	3,033	11	3,044
Taxes	1,371	-	1,371
Interest	77,602	-	77,602
Due from other governmental units	360,792	-	360,792
Capital assets:			
Land	617,975	-	617,975
Construction in progress	27,513	-	27,513
Depreciable capital assets, net	8,864,612	-	8,864,612
<b>Total assets</b>	<b>15,523,057</b>	<b>1,763</b>	<b>15,524,820</b>
<b>Liabilities</b>			
Accounts payable	86,962	62	87,024
Accrued payroll and benefits	58,622	-	58,622
Accrued interest	29,072	-	29,072
Long-term liabilities:			
Earned employee compensated absences:			
Due within one year	114,800	-	114,800
Due after one year	110,239	-	110,239
Capital leases payable:			
Due within one year	805,000	-	805,000
Due after one year	3,595,000	-	3,595,000
<b>Total liabilities</b>	<b>4,799,695</b>	<b>62</b>	<b>4,799,757</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	5,110,100	-	5,110,100
Restricted:			
Nonexpendable:			
Permanent fund corpus	828,742	-	828,742
Expendable for:			
Specific purposes	1,320,994	-	1,320,994
Capital projects	328,813	-	328,813
Unrestricted	3,134,713	1,701	3,136,414
<b>Total net assets</b>	<b>\$ 10,723,362</b>	<b>\$ 1,701</b>	<b>\$ 10,725,063</b>

The accompanying notes are an integral part of these financial statements.

# Herrick District Library

## Statement of Activities

For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
<b>Governmental activities</b>			
Library services	\$ 4,955,379	\$ 230,111	\$ 22,148
Interest on long-term debt	202,533	-	-
Total governmental activities	5,157,912	230,111	22,148
<b>Business-type activities</b>			
Employee vending fund	1,524	1,402	-
Total primary government	\$ 5,159,436	\$ 231,513	\$ 22,148

### General revenues

Intergovernmental

Unrestricted investment earnings

Transfers - internal activities

### Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - ending of year

The accompanying notes are an integral part of these financial statements.



Net (Expenses) Revenue and Changes In Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (4,703,120)	\$ -	\$ (4,703,120)
(202,533)	-	(202,533)
(4,905,653)	-	(4,905,653)
-	(122)	(122)
\$ (4,905,653)	\$ (122)	\$ (4,905,775)
5,193,946	-	5,193,946
285,702	-	285,702
(400)	400	-
5,479,248	400	5,479,648
573,595	278	573,873
10,149,767	1,423	10,151,190
\$ 10,723,362	\$ 1,701	\$ 10,725,063

# Herrick District Library

## Balance Sheet Governmental Funds

June 30, 2008

	<u>General</u>	<u>Endowment Permanent</u>	<u>Nonmajor Fund - Capital Projects</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments	\$ 2,869,531	\$ 2,146,776	\$ 328,813	\$ 5,345,120
Receivables:				
Accounts	-	3,033	-	3,033
Taxes	1,371	-	-	1,371
Interest	77,602	-	-	77,602
Due from other governmental units	360,792	-	-	360,792
<b>Total assets</b>	<b>\$ 3,309,296</b>	<b>\$ 2,149,809</b>	<b>\$ 328,813</b>	<b>\$ 5,787,918</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 86,889	\$ 73	\$ -	\$ 86,962
Accrued payroll and benefits	58,622	-	-	58,622
<b>Total liabilities</b>	<b>145,511</b>	<b>73</b>	<b>-</b>	<b>145,584</b>
<b>Fund balances</b>				
Reserved for:				
Permanent fund corpus	-	828,742	-	828,742
Permanent fund expendable	-	1,320,994	-	1,320,994
Unreserved:				
Designated for:				
Replacement of equipment	66,643	-	-	66,643
Undesignated	3,097,142	-	328,813	3,425,955
<b>Total fund balances</b>	<b>3,163,785</b>	<b>2,149,736</b>	<b>328,813</b>	<b>5,642,334</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,309,296</b>	<b>\$ 2,149,809</b>	<b>\$ 328,813</b>	<b>\$ 5,787,918</b>

The accompanying notes are an integral part of these financial statements.

## Herrick District Library

### Reconciliation of the Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

<b>Fund balances- total governmental funds</b>	<b>\$ 5,642,334</b>
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in the governmental activities are not financial resources and  
therefore are not reported in the funds.

Add - land	617,975
Add - construction in progress	27,513
Add - capital assets being depreciated	13,318,330
Deduct - accumulated depreciation	(4,453,718)

Certain liabilities, such as leases payable, are not due and payable in the current  
period and therefore are not reported in the funds.

Deduct - leases payable	(4,400,000)
Deduct - accrued interest on long term liabilities	(29,072)

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<b>Net assets of governmental activities</b>	<b>\$ 10,723,362</b>
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The accompanying notes are an integral part of these financial statements.

# Herrick District Library

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2008

	General	Endowment Permanent	Nonmajor Fund - Capital Projects	Total
<b>Revenues</b>				
Intergovernmental	\$ 5,193,946	\$ -	\$ -	\$ 5,193,946
Charges for services, fines and fees	230,111	-	-	230,111
Investment earnings	170,576	99,781	15,345	285,702
Miscellaneous	72	22,076	-	22,148
<b>Total revenues</b>	<b>5,594,705</b>	<b>121,857</b>	<b>15,345</b>	<b>5,731,907</b>
<b>Expenditures</b>				
Current:				
Personal services	3,037,308	-	-	3,037,308
Other services and charges	1,400,299	6,278	-	1,406,577
Debt service:				
Principal	785,000	-	-	785,000
Interest	202,533	-	-	202,533
Capital outlay	55,415	-	-	55,415
<b>Total expenditures</b>	<b>5,480,555</b>	<b>6,278</b>	<b>-</b>	<b>5,486,833</b>
<b>Revenues over (under) expenditures</b>	<b>114,150</b>	<b>115,579</b>	<b>15,345</b>	<b>245,074</b>
<b>Other financing uses</b>				
Transfers out	(400)	-	-	(400)
Net changes in fund balances	113,750	115,579	15,345	244,674
Fund balances, beginning of year	3,050,035	2,034,157	313,468	5,397,660
<b>Fund balances, end of year</b>	<b>\$ 3,163,785</b>	<b>\$ 2,149,736</b>	<b>\$ 328,813</b>	<b>\$ 5,642,334</b>

The accompanying notes are an integral part of these financial statements.

## Herrick District Library

### Reconciliation of the Net Change in Fund Balances on the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Change in Net Assets of Governmental Activities on the Statement of Activities

For the Year Ended June 30, 2008

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 244,674</b>
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlay as expenditures. However, in the  
statement of activities, the cost of these assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Add - capital outlay	51,327
Deduct - depreciation expense	(504,764)

Repayment of lease principal is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term leases	785,000
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Some expenses reported in the statement of activities do not require the use of current  
financial resources and therefore are not reported as expenditures in the funds.

Deduct - disposal of undepreciated capital assets	(7,326)
Add - decrease in accrued interest on long term liabilities	4,684

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<b>Change in net assets of governmental activities</b>	<b>\$ 573,595</b>
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The accompanying notes are an integral part of these financial statements.

# Herrick District Library

## Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Fund

Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance Over (Under)
<b>Revenues</b>				
Intergovernmental	\$ 5,195,320	\$ 5,195,320	\$ 5,193,946	\$ (1,374)
Charges for services	197,400	197,400	230,111	32,711
Investment earnings	160,000	160,000	170,576	10,576
Miscellaneous	-	-	72	72
<b>Total revenues</b>	<b>5,552,720</b>	<b>5,552,720</b>	<b>5,594,705</b>	<b>41,985</b>
<b>Expenditures</b>				
Current:				
Personal services	3,112,132	3,127,132	3,037,308	(89,824)
Other services and charges	1,504,375	1,524,666	1,400,299	(124,367)
Debt service				
Principal	785,000	785,000	785,000	-
Interest	203,133	203,133	202,533	(600)
Capital outlay	118,080	103,533	55,415	(48,118)
<b>Total expenditures</b>	<b>5,722,720</b>	<b>5,743,464</b>	<b>5,480,555</b>	<b>(262,909)</b>
<b>Revenues under expenditures</b>	<b>(170,000)</b>	<b>(190,744)</b>	<b>114,150</b>	<b>304,894</b>
<b>Other financing sources (uses)</b>				
Transfers in	75,000	75,000	-	(75,000)
Transfers out	(400)	(400)	(400)	-
<b>Total other financing sources (uses)</b>	<b>74,600</b>	<b>74,600</b>	<b>(400)</b>	<b>(75,000)</b>
Net changes in fund balances	(95,400)	(116,144)	113,750	229,894
Fund balances, beginning of year	3,050,035	3,050,035	3,050,035	-
<b>Fund balances, end of year</b>	<b>\$ 2,954,635</b>	<b>\$ 2,933,891</b>	<b>\$ 3,163,785</b>	<b>\$ 229,894</b>

The accompanying notes are an integral part of these financial statements.

# Herrick District Library

## Statement of Fund Net Assets Proprietary Funds

June 30, 2008

	Business-Type Activities	Governmental Activities
	Employee Vending Fund	Compensated Absences Internal Service Fund
<b>Assets</b>		
Cash and pooled investments	\$ 1,752	\$ 225,039
Accounts receivable - net	11	-
<b>Total assets, all current</b>	<b>1,763</b>	<b>225,039</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	62	-
Accrued payroll and benefits	-	114,800
Total current liabilities	62	114,800
Non-current liabilities		
Earned employee compensated absences	-	110,239
<b>Total liabilities</b>	<b>62</b>	<b>225,039</b>
<b>Net assets</b>		
Unrestricted	\$ 1,701	\$ -

The accompanying notes are an integral part of these financial statements.

# Herrick District Library

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2008

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Employee Vending Fund</b>	<b>Compensated Absences Internal Service Fund</b>
<b>Operating revenues</b>		
User fees and charges for services	\$ 1,402	\$ 6,015
<b>Operating expenses</b>		
Operations	1,524	6,015
<b>Operating income (loss)</b>	(122)	-
<b>Transfers</b>		
Transfers in	400	-
Change in net assets	278	-
Net assets, beginning of year	1,423	-
<b>Net assets, end of year</b>	\$ 1,701	\$ -

The accompanying notes are an integral part of these financial statements.



# Herrick District Library

## Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2008

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Employee Vending Fund</b>	<b>Compensated Absences Internal Service Fund</b>
<b>Cash flows from operating activities</b>		
Receipts from interfund services provided	\$ -	\$ 6,015
Receipts from customers	1,401	-
Payments to suppliers	(1,531)	-
Net cash (used in) provided by operating activities	(130)	6,015
<b>Cash flows from noncapital financing activities</b>		
Transfer in	400	-
Net increase in cash and pooled investments	270	6,015
Cash and pooled investments, beginning of year	1,482	219,024
<b>Cash and pooled investments, end of year</b>	<b>\$ 1,752</b>	<b>\$ 225,039</b>
<b>Cash flows from operating activities</b>		
Operating loss	\$ (122)	\$ -
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(1)	-
Accounts payable	(7)	-
Compensated absences payable	-	6,015
Net cash (used in) provided by operating activities	\$ (130)	\$ 6,015

The accompanying notes are an integral part of these financial statements.

# Herrick District Library

## Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2008

### Assets

Cash and pooled investments	\$	55,287
Accounts receivable		65
<hr/>		
Total current assets	\$	55,352
<hr/>		

### Liabilities

Other accrued liabilities and deposits	\$	55,352
<hr/>		

The accompanying notes are an integral part of these financial statements.

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Herrick District Library (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

**The Reporting Entity**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Library. There are no component units to be included. Criteria for including a component unit include entities for which the Library is considered to be financially accountable.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

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Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Endowment Permanent Fund* is used to record the activity and balance of Endowments which are restricted for specific purposes.

The *Employee Vending Enterprise Fund* is used to account for the balances and activities of the various activities benefiting employees which is financed through user charges which support this service.

Additionally, the Library reports the following fund types:

The *Capital Projects Fund* accounts for the accumulation of resources and disbursements for construction projects of governmental funds.

The *Internal Service Fund* accounts for the accumulation of both the liability and the resources to pay the compensated absences liability at year end.

*Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include cafeteria expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

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**Budgets and Budgetary Accounting**

Comparisons to budget are presented for the general fund as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the District Library Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the District Library Board.
7. Budgets for expenditures are adopted at the fund level.
8. Budgeted amounts are as originally adopted, or as amended by the District Library Board.

**Cash and Pooled Investments**

For purposes of the statement of cash flows, the Library considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at anytime, similar to a demand deposit account.

**Investments**

Investments consist of money market funds. Investments are carried at fair value.

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

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**Statutory Authority**

State statutes authorize the Library to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets of the Library is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	40
Equipment and machinery	7-10
Office equipment and furniture	5-7

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

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The Library has elected not to capitalize its collection of library books because management feels that to do so would be impractical. Purchases of books are recorded as current expenditures in the year purchased. Purchases of library books for the year ended June 30, 2008 amounted to \$305,832.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Intergovernmental Revenue**

The Library's primary source of funding is intergovernmental revenue. This funding includes contributions by the City of Holland, Holland Charter Township, Park Township and Laketown Township based on collection of a unified millage on property values. This revenue source also includes Library State Aid and fines collected by other governments.

**Accrued Vacation Time**

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accrued vacation leave is recorded as an internal service fund liability at June 30, 2008.

**Interfund Transactions**

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and subsidies. The accompanying financial statements generally reflect such transactions as revenues and expenditures and transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the Library. The only transfer was from the General Fund to the Employee Vending Fund for \$400.

Transfers are used to move revenues earned in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

**Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in the past fiscal year.

**2. DEPOSITS AND INVESTMENTS**

The captions on the financial statements relating to deposits and investments are as follows:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Fiduciary Funds</b>	<b>Total</b>
Cash and pooled investments	\$ 5,570,159	\$ 1,752	\$ 55,287	\$ 5,627,198

Cash and pooled investments consist of the following:

Checking/savings accounts	\$ 201,174
Certificates of deposit (due within one year)	4,424,375
Certificates of deposit (due after one year)	1,000,000
Investments	179
Petty cash	1,470
	<u>\$5,627,198</u>

Deposits and certificates of deposit are in four (4) financial institutions located in Michigan. State law limits the Library's depository options to financial institutions located in Michigan. All accounts are in the name of the Library.

The Library chooses to disclose its investments by specifically identifying each. As of year-end, the Library had the following investments:

**Investments**

	<b>Maturity</b>	<b>Fair Value</b>	<b>Rating</b>
Fifth Third Government Money Market Fund	N/A	\$ 179	Not Rated

**Investment and Deposit Risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Library's investment does not have a maturity date.



# Herrick District Library

## Notes to Financial Statements

Year Ended June 30, 2008

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*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The Library investment policy does not have specific limits in excess of state law on investment credit risk. The Library's investment does not have a credit rating.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year end, \$5,124,375 of the Library's bank balance of \$5,645,356 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the Library's investment policy. Mutual funds and money market funds are not subject to custodial credit because there are specifically identifiable securities associated with the Library's portion of each fund.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

**3. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2008, are as follows:

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2008</b>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 617,975	\$ -	\$ -	\$ 617,975
Construction in progress	27,513	-	-	27,513
Total capital assets, not being depreciated	<u>645,488</u>	<u>-</u>	<u>-</u>	<u>645,488</u>
Capital assets, being depreciated				
Improvements other than buildings	203,513	-	-	203,513
Buildings	11,368,578	-	-	11,368,578
Equipment and machinery	627,203	37,480	(79,559)	585,124
Office equipment and furniture	1,147,268	13,847	-	1,161,115
Total capital assets being depreciated	<u>13,346,562</u>	<u>51,327</u>	<u>-</u>	<u>13,318,330</u>
Less accumulated depreciation for:				
Improvements other than buildings	78,404	9,551	-	87,955
Buildings	3,016,436	382,692	-	3,399,128
Equipment and machinery	417,308	47,636	(72,233)	392,711
Office equipment and furniture	509,039	64,885	-	573,924
Total accumulated depreciation	<u>4,021,187</u>	<u>504,764</u>	<u>(72,233)</u>	<u>4,453,718</u>
Total capital assets, being depreciated, net	<u>9,325,375</u>	<u>(453,437)</u>	<u>(7,326)</u>	<u>8,864,612</u>
Governmental activities capital assets, net	<u>\$ 9,970,863</u>	<u>\$(453,437)</u>	<u>\$ (7,326)</u>	<u>\$ 9,510,100</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Library services	<u>\$504,764</u>

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

**4. LONG-TERM DEBT**

The following is a summary of debt transactions of the Library for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Capital lease payable to the City of Holland Building Authority, due in one annual installment of \$350,000 on May 1, 2009; interest at 4.375%.	\$ 700,000	\$ -	\$ 350,000	\$ 350,000	\$ 350,000
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$430,000 to \$475,000, through May 1, 2017, interest at 3.00% to 4.35%.	4,485,000	-	435,000	4,050,000	455,000
Subtotal – installment debt	5,185,000	-	785,000	4,400,000	805,000
Compensated absences	219,024	218,465	212,450	225,039	114,800
<b>Total</b>	<b><u>\$ 5,404,024</u></b>	<b><u>\$ 218,465</u></b>	<b><u>\$ 997,450</u></b>	<b><u>\$4,625,039</u></b>	<b><u>\$ 919,800</u></b>

The following is a schedule of annual future minimum lease payments required under the capital leases payable at June 30, 2008:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 805,000	\$ 174,432	\$ 979,432
2010	435,000	144,332	579,332
2011	445,000	131,282	576,282
2012	460,000	111,925	571,925
2013	475,000	93,526	568,526
2014-2017	1,780,000	185,173	1,965,173
<b>Total</b>	<b><u>\$4,400,000</u></b>	<b><u>\$ 840,670</u></b>	<b><u>\$5,240,670</u></b>

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

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**5. DEFINED BENEFIT PENSION PLAN**

**Municipal Employees Retirement System of Michigan**

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined pension plan providing retirement, death and disability benefits covering full-time and part-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Library is required to contribute at an actuarially determined rate; the current rate is 11.57% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

The required contribution of \$246,782 was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 29 years.

The Library's Annual Pension Cost and Net Pension Obligation for the current year are as follows:

Annual pension cost	\$ 246,782
Contributions made	<u>(246,782)</u>
Decrease in net Pension Obligation	-
Net Pension Obligation beginning of year	<u>-</u>
Net Pension Obligation end of year	<u>\$ -</u>

**Herrick District Library**  
**Notes to Financial Statements**  
**Year Ended June 30, 2008**

**Three-Year Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 202,996	100%	\$ -
2007	209,702	100%	-
2008	246,782	100%	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/05	\$ 3,659,438	\$ 4,676,324	\$ 1,016,886	78%	\$ 1,658,699	61%
12/31/06	3,972,045	5,051,239	1,079,194	79%	1,773,941	61%
12/31/07	4,345,630	5,426,909	1,081,279	80%	1,883,507	57%

**6. OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 5, the Library provides postemployment health care benefits, in accordance with union contracts and approved personnel policy for full-time permanent employees, to all employees who retire from the City on or after attaining age 55, but prior to attaining age 65. Currently, there are no retirees that meet the eligibility requirements. The Library provides for single person coverage up to \$155 per month or two-person coverage up to \$300 per month. No benefit is provided if the retiree can obtain no cost coverage through other employment or through a spouse's employment. However, retired employees who are eligible to receive hospital, surgical and medical coverage from another employer-sponsored plan may request reimbursement for any premium cost up to the maximum amounts as stated above. During the fiscal year, there were no expenditures for postemployment health care benefits paid. Such premiums are expected to be funded on a pay-as-you-go basis.

All retirees and their spouses, including surviving spouses and/or dependents, are eligible for participation in the Library's Group Health Insurance by paying the established premiums.

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## **COMBINING FINANCIAL STATEMENTS**

## **FIDUCIARY FUNDS**

# Herrick District Library

## Combining Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2008

	<u>Imprest Payroll</u>	<u>Employees' Flexible Benefits Plan</u>	<u>Total</u>
<b>Assets</b>			
Cash and pooled investments	\$ 52,640	\$ 2,647	\$ 55,287
Accounts receivable	-	65	65
<b>Total assets</b>	<b>\$ 52,640</b>	<b>\$ 2,712</b>	<b>\$ 55,352</b>
<b>Liabilities</b>			
Other accrued liabilities and deposits	\$ 52,640	\$ 2,712	\$ 55,352



**Herrick District Library**  
**Combining Statement of Changes in**  
**Fiduciary Assets and Liabilities**  
**Agency Funds**

**For the Year Ended June 30, 2008**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
<b><u>Imprest Payroll</u></b>				
<b>Assets</b>				
Cash and pooled investments	\$ 35,787	\$ 5,492,141	\$ 5,475,288	\$ 52,640
<b>Liabilities</b>				
Other accrued liabilities and deposits	\$ 35,787	\$ 5,492,141	\$ 5,475,288	\$ 52,640
<b><u>Employees' Flexible Benefits Plan</u></b>				
<b>Assets</b>				
Cash and pooled investments	\$ (1,534)	\$ 26,190	\$ 22,009	\$ 2,647
Accounts Receivable	-	653	588	65
Due from employees	1,534	649	2,183	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 27,492</b>	<b>\$ 24,780</b>	<b>\$ 2,712</b>
<b>Liabilities</b>				
Other accrued liabilities and deposits	\$ -	\$ 27,492	\$ 24,780	\$ 2,712
<b><u>Total - All Agency Funds</u></b>				
<b>Assets</b>				
Cash and pooled investments	\$ 34,253	\$ 5,518,331	\$ 5,497,297	\$ 55,287
Accounts Receivable	-	653	588	65
Due from employees	1,534	649	2,183	-
<b>Total assets</b>	<b>\$ 35,787</b>	<b>\$ 5,519,633</b>	<b>\$ 5,500,068</b>	<b>\$ 55,352</b>
<b>Liabilities</b>				
Other accrued liabilities and deposits	\$ 35,787	\$ 5,519,633	\$ 5,500,068	\$ 55,352

## **COMPLIANCE AND INTERNAL CONTROL**



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

December 16, 2008

Members of the District Library Board  
Herrick District Library  
Holland, Michigan

We have audited the financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of Herrick District Library as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Herrick District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Herrick District Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Herrick District Library's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Herrick District Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Herrick District Library's financial statements that is more than inconsequential will not be prevented or detected by the Herrick District Library's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Herrick District Library's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Herrick District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Library Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

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December 16, 2008

Members of the District Library Board  
Herrick District Library  
Holland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Herrick District Library** (the "Library") for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated September 25, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Library's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on September 22, 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

There is an ongoing disagreement with management as to the treatment of penal fine revenue paid to the library by Ottawa County after the end of the fiscal year, usually in August. Management traditionally budgeted this payment as revenue in the fiscal year in which it was received and has expressed an interest in accounting for it in the same manner. Because these funds are collected by the County during the Library's fiscal year and are remitted to the Library within 60 days of fiscal year end, these funds are considered both measurable and available by current generally accepted accounting principles (GAAP), thus making this payment subject to accrual. Accounting for this payment in the manner desired by management would be inconsistent with the revenue recognition policies as stated in the notes to the financial statements as well as with current GAAP, and thus could result in a modification of the audit opinion. Furthermore this would create an internal inconsistency in the Library's financial statements, as penal fines collected by Allegan County are remitted to the Library as they are collected throughout the year.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 16, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Herrick District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

## **Herrick District Library Comments and Recommendations**

**For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the Herrick District Library (the "Library") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### *Information Technology Controls*

In connection with the implementation of the new Audit Risk Suite, we reviewed with management a list of information technology (IT) controls in place at the Library. We noted various opportunities to enhance controls over IT as it relates to system security and formal IT policies and procedures. We recommend that the Library review the suggested controls not currently in place and consider whether it would be cost beneficial to implement such controls in the future. The recommended policies included;

- Session time out after predetermined period of activity;
- Policy requiring the use of complex passwords;
- Policy requiring passwords be changed periodically;



**Herrick District Library  
Comments and Recommendations**

**For the Year Ended June 30, 2008**

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- Access periodically reviewed by management to ensure privileges granted agree with what was approved; and
- Procedures to reject at the point of data entry for transaction data entries.

*New Accounting Standard - Other Postemployment Benefits (OPEB)*

The Governmental Accounting Standards Board recently issued Statement No. 43, Financial Reporting for Post Employment Benefit Plans other than Pension Plans. Statement No. 43 will become effective for the Library for fiscal year 2009 and will require additional note disclosures, an actuarial evaluation of the Library's OPEB plan, and possible recognition of OPEB expenses in the government-wide financial statements based on actuarially determined amounts.

The implementation of this new standard will require the Library to make certain decisions regarding the funding of its OPEB liabilities. We are available to discuss this with management and/or to assist the Library with properly accounting for its OPEB transactions in future periods, as needed.

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